

Netflix/Google exec meeting

INTERNAL BRIEF

Meeting details

Decks: Final presentation | Netflix slides

Meeting notes | Follow-up

Narrative

Status of priority integrations

Android TV | Primetime | Assistant on ATV | Play Billing | Smart Displays | Other notes

Meeting details

Goal: Give Netflix execs an update on Android Platforms and a focused view of key priorities

- Date/time: March 19, 2018
- Netflix Attendees:
 - Greg Peters -- Chief Product Officer
 - Bill Holmes -- Chief Business Development Officer
 - Scott Mirer -- VP Device Partner Ecosystem
 - Rob Caruso -- Partner Engagement Director
 - Paul Perryman -- VP Business Development
 - Katy Davies -- Director Business Development
 - Roma De -- VP Product
- Google Attendees:
 - Hiroshi Lockheimer -- SVP, Platforms & Ecosystems
 - Jamie Rosenberg -- VP, Android & Play Business
 - Sameer Samat -- VP, Product Management
 - Jon Zepp -- Director, Media & Entertainment
 - Mike Hochberg -- VP, Engineering
 - Tian Lim -- VP of UX & Product for Play (via VC)
 - Nick Fox -- VP, Product & Design, Search and Assistant
 - Shalini GovilPai -- Product Management Director
 - Ariel Spivak -- Director, Android Auto & TV Partnerships
 - George Audi -- Global Head of Entertainment Apps BD (via VC)

Decks

Final presentation

Netflix slides

EXHIBIT 8574

Meeting notesHigh level takeaways:

- Netflix priorities: focus on 2 business metrics -- retention and acquisition
- Thoughts on platforms: increasingly moving to be in partner device UIs in ways that are compelling (i.e. prominent)
- Growth: core business model not about to change, but biggest opportunity in international (JP, IN as priority)
- App-less surfaces: skeptical about devices in which Netflix doesn't control the interaction model
- Most important for Netflix: having an app that they control, and which is prominently preloaded on partner devices
- Android TV: an aspiration for growth at scale, but promise not yet fulfilled. Scale burdened by Netflix certification requiring preferred placement
- Voice/Assistants: treading carefully since worried about losing connection with customer; not in a hurry to participate
- Content discovery: Netflix all about "moments of truth" -- concerns that 3rd party guide would erode moments of truth for Netflix
- Payments: GPB still hasn't driven incremental value that justifies the increased revshare
- Thoughts on Amazon: it's a top device partner

Next steps:

- Primetime: Rob socializing internally and discussing with George on Friday (tomorrow)
- ATV certification: further flesh out what scaling proposal could look like
- Assistant: Rob's team reviewing proposal presented on Monday (which gives on rendering) -- seems to offer a positive path forward
- GPB: follow up when have more crystallized timelines and business terms (for now, Netflix shutting down experiment in most markets on 3/26 until further notice from us)
- Growth: JP and IN are core markets -- discuss how to support growth there (somewhat tied to decision on GPB)
- Others: can share more info on Amazon relationship, if we'd like

Netflix priorities: focus on 2 business metrics -- retention and acquisition

- Retention is driven by engagement -- keep people watching more content in their app
- Acquisition driven by access and removing friction (payments, login, UI)
 - Bundling with existing offerings (eg PayTV, traditional linear)
 - Payment integrations with platforms (e.g. iOS)

Thoughts on platforms: increasingly moving to be in partner device UIs in ways that are compelling

- Compelling = maintain prominent placement for Netflix app
- *"If have platform that we can experiment with like we do in our app, that provides value in both acquisition and re-engagement"*
- Scott/Greg/Bill came in 10 years ago right when Netflix decided to spin off Roku
 - Since then, want to form partnerships to distribute at scale

Growth: core business model not about to change, but biggest opportunity in international

- Subs: 50/50 domestic / international

- Asia is earliest in that growth curve: JP, IN carved out as most strategic markets (by size and relevance of content)

App-less surfaces: skeptical about devices in which Netflix doesn't control the interaction model

- OK with cast-only devices (Netflix triggered from phone and cast to 10 foot experience)
 - However, engagement on Cast consistently below a true 10-foot experience
- Issue with devices like Dragonglass which offer templated experiences
 - Disintermediation is designed into these devices – Netflix no longer has the ability to control the experience, app canvas no longer exists
 - Another company is controlling the UI and Netflix becomes a content pipe
- Seems that Google is expanding Cast beyond just a "protocol" and into these hybrid Cast/TV experiences

What's most important for Netflix?

- Having an app that they control, can test in
- Maintaining preferred placement through negotiations with OEMs
 - remote buttons, UI placement, promotion of content in partners' UI that Netflix controls/personalizes/tests/etc.
- In return, Netflix shares revenue from subs coming from OEM / operator devices

Android TV: an aspiration for growth at scale, but promise not yet fulfilled

- Aspire for a world where Netflix can access global reach in the living room without having to do specific integrations with as many CEs
- Tension between leveraging scale of ATV but retaining the benefits that Netflix can negotiate through 1:1 partnerships
 - Button on remote, preferred placement in UI, etc.
- ATV platform is evolving in a way which creates tension and limits visibility for Netflix
 - E.g. friction when Sony says they can't provide fixed out-of-box placement opportunities because of Google policy
- Partnerships with ISPs/MVPDs are very important for marketing purposes
- Android TV closer to the "pinnacle" experience -- there are some things to iron out when it comes to placement, etc. but engagement is good
 - Tension is with the other platforms which have limited visibility in the long term growth
- ATV scale burdened by Netflix certification requiring preferred placement
 - Netflix had asked for placement terms to be part of certification requirements, but given our platform bias, there are natural areas where the 2 companies can't be aligned
 - Google refused giving Netflix a button on the Nexus Player remote
 - "Scaling ATV" proposal is interesting, as long as Netflix can maintain same level of benefits it currently gets from OEMs
 - Believes a scaling program would only get us "90% there" -- need to understand what issues need to be ironed out so that Netflix gets comfortable to fully outsource certification
 - Out of the 10-12M pipeline in 2018/19, most are already working with Netflix
 - Even if Netflix get technical piece done by Google, there's still a level of effort for Netflix
 - Makes sense for 1M devices, not for 10K devices
 - Can we get to a reference level design where Google takes on everything? Right now we end up just shy across tech/business/QA

- Netflix penetration on Active ATV devices: 40% seems low
 - Worth digging on – probably this is because engagement varies across devices
 - Working with handful of partners on device plans for 2019 on specific tactics to shrink gap between connected devices and using Netflix on ATV
 - Opportunity to work on this further with us
- When work with partners (e.g Comcast), try to take advantage of UI to promote content, when such canvases are available
 - Netflix populates these canvases with the assets they see most fit (similar to an ad model)
 - Watson will be the first manifestation of such canvases on ATV – eager to see partners ship that before they participate with more
- What drives more upsell: size and relevance of canvas are important
 - Within a given canvas try to optimize based on moments in the user flow
 - Don't get a ton of data back from partner UIs since it's not a Netflix experience – all Netflix knows is which assets gets called

Voice/Assistants: treading carefully with voice since worried about losing connection with customer

- *"How to maintain points of contact with consumers in this new paradigm?"*
- Not in a hurry to participate – want to do this right
- Don't see Assistant as something which will drive acq/retention, but open to participating since it's a priority for Google
- Concerns with Search – how the data gets used across Google products
 - Netflix provides metadata for a specific Google product, but have seen instances of their content showing up on other (discovery surfaces) they haven't approved

Content discovery: Netflix all about "moments of truth" -- concerns that 3rd party guide would erode moments of truth for Netflix

- Many other partners approaching Netflix for this so if give in to PT will have to give in to others
- Participation in Primetime Phase 1 in a vacuum is benign
- Concerns with where to go in Phase 2, especially in light of Billing
- Need to reconcile what it means for users if Netflix is not in Phase 2
 - Is engaging with PT going to erode moments of truth for Netflix?
- Apple Guide was supposed to be a separate app but then became a launcher experience on Apple TV, which Netflix did not want to participate in
- Need to think about participation as a complete user flow -- what happens when a user gets to Netflix but get a broken experience since there's no seamless billing?

Payments: GPB still hasn't driven incremental value that justifies the increased revshare

- Netflix also working with the same payment providers and operators as Google is
- Netflix's fees are 1-3% with these partners; with GPB it's 10% and no incremental revenue
- Google is expanding Android Pay -- "that fee structure is more rational for us"
- With time it will be easier to transact via browser given what Google is doing on identity, payments, etc. so there's no real need for Netflix to get on Play Billing while in-browser payments are becoming more seamless

Thoughts on Amazon: it's a top device partner

- Have a content row, do hero experiences

- (forked) Android TV works great on a \$50 device build by Amazon! Why can't Android TV build an experience which runs smoothly on lower end / lower price point devices?

Follow-up meeting on to deep-dive on Amazon

Attendees: Google (Shalini, Tian, George); Netflix (Rob, Cynthia)

Not seeing the volume of growth on ATV that they see on Amazon

- One large OEM (Sony) but others are very small, requiring a lot of effort to certify initially + 3 cycles of certification
- Number of partners on ATV looks really good, but the distribution volume of these partners is not efficient for Netflix to undertake

What are the things ATV can do from a product perspective to make it more attractive for NFLX?

- Early access and trust at the product planning phase: Amazon is open and gives early access to their roadmap and tech designs, even early on at powerpoint slide
 - Align on roadmap and capabilities for Netflix and what the device capabilities can offer
- Understand that many of the ATV devices coming to market are not our own, but when it's a Google 1P device, there is significant improvement in presenting it to Netflix early on

What would it take for Netflix content to surface more prominently on ATV?

- Difficulty working with devices which have their own service (e.g. Amazon Prime, Apple) since parity becomes a concern
- Until can start looking at UI and wireframes, hard to decide
- Parity is most important – expect premium prominent placement in parity with other services
 - Especially if there's a 1P service (Amazon Prime, Play Movies&TV)
 - Otherwise won't participate
- On Watson, negotiated to have an opportunity to negotiate with partners to be above the fold

What's the right timing to engage on new UI?

- Whenever Google is ready!
- Want to work with partners to increase attach rates, get users to try Netflix – anything which can entice users of new devices to try Netflix and new services would be welcome

Any other challenges

- Markets: anything material with broadband households with 20M+ is interesting
- International expansion happened with 1) LATAM and UK, 2) parts of EU, 3) other parts of EU, 4) JP, 5) everything else came at once
- Still large untapped markets (e.g. IN) where Google can help

Next steps

- Setup time to deep-dive on UI which focuses on a more seamless engagement and opportunities to promote content

Narrative

Kick off with Netflix strategic priorities (*Netflix-led: Greg/Scott/Bill*)

- What are Netflix's priorities?
- Where do they see growth coming from?
- What do they expect of platforms?

Overview of P&E (*Hiroshi*)

- How Google is organized, our role vs. HW team, P&E's vision

As a platform, our long-term, holistic objective for Media & Entertainment is to:

- Enable global users to discover and engage with content in the apps they love, as fast and accurately as possible, and consume it everywhere

-- transition from high-level from more tactical / product updates ----

M&E platform and product priorities

- *Enable global users*
 - Mobile scale and reach
 - Emerging market investment (Android GO)
- *Discover and engage with content in the apps they love as fast and as accurately as possible*
 - Efficient cross-service discovery with Primetime
 - Phase 1: get commitment
 - Phase 2: product feedback
 - New technologies in Machine Learning and Artificial Intelligence (e.g. Google Lens)
- *Consume it everywhere*
 - Growing Living Room presence
 - 2x YoY growth, Netflix only on 38% of ATV devices due to OEM certification overhead and sub-optimal penetration on certified devices
 - Cross-device integrations (Home, mobile, tablet, TV)

End with how an optimal Android/Netflix relationship could look like

- Illustrative scenarios of what optimal (hypothetical) user journeys could look like if Netflix and Google were tightly integrated

Status of priority integrationsAndroid TV

- Status
 - Netflix would like ATV to be their platform for scale. Current issues towards this that they have expressed
 - Not distributing on smaller (<300K reach) ATV OEMs, stating that these devices diverge from ATV reference design and therefore require significant resources to certify; we have a dozen of operators who are stalled due to Netflix not willing to engage or just being bottlenecked by Netflix certification
 - Taking on an ATV OEM = 4 year commitment (1 OS and 3 upgrades)
 - Today, Netflix missing out on 3M ATV devices which are not certified, 2.5M are coming from 2 OEMs
 - LG+: Netflix just signed deal to launch this summer
 - Free: Wants to use own VOD service hence didn't go to Netflix for cert
 - Netflix penetration is at 38% of certified devices (4.8M active users on ATV)
 - Active users = have streamed NFLX content at least once in 30 days
 - Opportunity to increase usage through solutions such as promotional rows on ATV, content branding in new UI (for brainstorm only)
- Key messages
 - ATV is growing and we believe we are on the path to become the biggest TV related OS in the world. majority of growth coming from emerging markets (APAC) and operator relationships. Google is investing heavily in the LR - both hardware, software and TV experiences
 - Want to get to a state where Netflix is integrated on 100% of Android TV globally, pre-installed and certified
 - Google could become single POC for Tier 2 ATV devices (certification, promotional placement, preload, etc.) -- let's flesh out what this could like
 - Upcoming features in ATV, such as promotional row and content branding in new UI will serve to further drive subscriptions installs and/or re-engagement
 - Position these are food for thought, and solicit info on what is working on other platforms

Shalini Govil-Pai
Comment [1]: @google.com
 Ariel Spivak @google.com Cheng Tam @google.com
 Pre-brief for execs. Can you review/add/modify?
Comment [2]: LGTM!
Comment [3]: added a bit, otherwise, LGMT

Primetime

- Status
 - Presented updated product plan to Netflix in early March. Feedback was highly positive and in line with what they had asked for (support for "direct search" use cases)
 - Netflix stated to be tentatively on board with Phase 1, but needed to socialize further.
 - More discussion needed on Phase 2, but Netflix realizes that proposed Phase 2 is much more aligned with their feedback
 - Goal is to get to decision on Phase 1 in meeting (decouple it from Play Billing policy or other asks)
 - Primetime Phase 1 rollout starts on March 27th (with or without Netflix participation; Amazon will participate)
- Key messages
 - Phase 1 is not contentious: it enables us to direct users to the Netflix app for queries of titles which are on Netflix

Ben Serridge @google.com
Comment [4]: @google.com
 Paul Joyce @google.com
 Pre-brief for execs. Can you review/add/modify?

- Netflix has already participated in similar integrations with Apple and others
- Product is launching March 27th – is Netflix on board?
- Phase 2 already encompasses a lot of Netflix's feedback, and we're willing to keep iterating on a product plan that works for Netflix
 - baseline proposal is to include a single row of content supplied by Netflix (same content as currently supplied by Netflix to the Home app)
 - inclusion of Netflix in Phase 2 allows Netflix to be the default selection for Netflix subscribers
 - Can we start there and then work together to improve the product further, e.g. to better personalize the contents of the row
 - Phase 2 rollout starts April 4th

Comment [5]: to confirm, without GBP, our position is their content would not be shown in a browse scenario if the user has not indicated it is an existing sub. we should avoid discussion in the room, but noting for context.

Assistant on ATV

- Status
 - Aligned on most use-cases, with the exception of Netflix wanting to render results for category queries in its own app
 - After 9+ months of stalled negotiations, Assistant/HW/Android have agreed on a compromise which allows Netflix (and YouTube) to render results in their own app in a way which doesn't violate Assistant principles
 - Assistant sits in the middle and enables voice navigation for the list
 - Netflix passes info back to us necessary for us to do all the voice biasing
 - Assistant bar overlays the app and provides global state and suggestion chips
 - Netflix agrees to some basic UI paradigms that enable seamless voice navigation
 - Working team (Assistant/HW/ATV/Play) presenting this solution to Netflix on 3/19 (3 hours prior to Exec Summit)
- Key messages
 - Avoid going into details on Assistant negotiations
 - State that teams are jointly working on a solution which addresses Netflix's considerations while respecting Assistant's principles, and we are confident that we can get to a mutually acceptable compromise

Comment Yvonne Chou @google.com

Pre-brief for execs. Can you review/add/modify?
Note: we won't actively discuss Assistant in the meeting

Play Billing (GBP)

- Status
 - Netflix has been testing GBP for the past 1.5 years (before being informed of an upcoming policy change). Initial A/B test: GPB vs. Netflix payment flows in 2017
 - Result: higher acquisitions through GPB, but initial uplift eroded in subsequent month due to Play's higher (invol) churn rates
 - Netflix hence dialed back testing in most countries, except those which performed positively (JP, KR + ~60 small markets)
 - After being informed of upcoming change, Netflix resumed testing, this time GPB vs. consumption-only (i.e. no billing in-app, only on web)
 - This was not a true A/B test – instead, they would turn on a market 100% GPB for 4 weeks, then make it consumption-only for the following 4 weeks
 - Initial results are not positive in most markets
 - Unlike the issues from previous tests which related to retention, it seems this one did not generate a sign up lift

Comment [7] Kirsten Rasanen @google.com
Larry Yang @google.com

Pre-brief for execs. Can you review/add/modify?
Note: we won't actively discuss GBP in the meeting

Comment [8]: LGTM.

- Netflix claims that delta between GPB vs. consumption-only was minimal in mature markets (i.e. friction of having to signup from browser not high enough for users to abandon signing up for Netflix)
 - They are seeing positive results in Asia (continuing test for 8 weeks). Will terminate the test in mature markets on 3/26
 - Policy update: Netflix has 3 main concerns with proposed grandfathering approach
 - Temporary grandfathering – want to be permanently grandfathered in markets where a Google FOP is making them lose money (due to lower performance)
 - Ask for mobile and ATV preloads to be carved out of GPB enforcement – want to use own flows on preloads, mostly on ATV, so they can retain ability to have commercial terms with OEMs (button on remote, premium placement)
 - UI flow -- claim that "paying with Netflix" is too buried, and as long as GPB FOPs perform worse than Netflix FOPs (and are more expensive), this is a losing proposition for them
 - We believe many of the above is conjecture and likely to be a negotiation position
- Key messages
 - General position around GPB for Hiroshi: "Teams are deep into those discussions and have much more detail than I do. Suggest focusing that discussion with a narrower group."
 - Regarding using GPB on ATV: "We understand the concern about economics. Given our goal is to create a uniform experience across apps on Android platforms and make it easy for users to buy, let's brainstorm ideas to make this work for both sides."

Smart Displays (DragonGlass, Jasper)

- Status
 - Netflix is sceptical of "app-less surfaces" in general, and smart displays in particular
 - They are concerned that cloud-based UIs could disintermediate Netflix (which becomes a pipe of content)
 - Netflix has not yet integrated on Amazon Echo Show and has been reluctant to engage on DragonGlass and Jasper, although they seem to be slowly warming up to the product
 - They understand that Assistant integration is a prerequisite but have asked to limit Assistant conversations to Android TV for now
- Key messages
 - Assistant is the common thread on all of Google devices, and it offers a common layer for initiation of content consumption experiences
 - Regarding the fact that our products are running different platforms:
 - OEMs/Operators have existing business models around Media and Linear TVs. The Android TV platform supports these use cases while radically enhancing the experience via Google technologies, including YT, Play/Primetime (aka apps), Assistant and ML
 - Based on the success of Google Home, our 1P experience is looking at a voice first approach for users to connect with the content and information they love
 - Over time, we believe user behaviors and engagement will determine where and how to converge experiences (but they may never be the same)

Other notes

- Netflix may bundle a set of gives (e.g. Primetime participation, Assistant integration, smoother ATV certification, etc.) in return for asks that matter to them (concessions on Play Billing, rendering on Assistant, etc)
- Netflix realizes that they hold significant power over our product launches (e.g. Primetime delayed until Netflix on board, ATV O rollout stalled by OEMs until Netflix integrates with Watson, Assistant on ATV not fully marketed until solution is worked with Netflix/YouTube, etc.). Need to reset the playing field by showcasing our scale, the innovation of our platform, and the health of our ecosystem